FIRST QUARTER 2016

SAN DIEGO

INDUSTRIAL

Voit
REAL ESTATE SERVICES

MARKET CHANGE

Compared to Previous Quarter:

Vacancy
UP

Net Absorption
POSITIVE

Lease Rates
UP

Transactions
DOWN

Deliveries
UP

HIGHLIGHTS

- **Slow but Steady -** The San Diego County industrial market started out slowly albeit in the right direction for the first quarter of 2016. Net absorption was positive for the twenty-fifth quarter in a row, but posted a low number of 13,373 square feet. Both vacancy and availability increased slightly due to the highest number of deliveries posted, in just one quarter, compared to the past six years. Vacancy continues to be at one of the lowest levels in more than 15 years, posting a 4.10% vacancy rate at the end of the quarter, while availability increased slightly to 7.57%. Asking sales prices, asking lease rates and occupancy costs continued to increase.
- **Construction -** Industrial construction checked in at nearly 450,000 square feet at the end of the first quarter. During the recession and recovery, construction has been limited to sporadic build-to-suit projects. The tight development pipeline has helped to push vacancy down and lease rates up for industrial product.
- **Vacancy -** Direct/sublease space (unoccupied) finished the quarter at 4.10%, an increase from last quarter's 3.79%, but still one of the lowest numbers posted in more than 15 years. The vacancy rate for San Diego County's industrial market is now lower than the best number posted in the last period of economic expansion and more than 31% lower than the level of just a year ago. The Central Suburban submarket posted the lowest vacancy rate, at a mere 1.95%.
- **Availability -** Direct/sublease space being marketed was 7.57% at the end of the first quarter, an almost 10% decrease from 2015's first quarter rate of 8.39%. The lack of available space is creating pent up demand in some size ranges and is applying upward pressure on pricing.
- **Lease Rates -** The average asking triple-net lease rate checked in at $0.82 per square foot per month, a two cent increase in comparison to the previous quarter and ten cents higher than, or almost a 14% increase over 2015's first quarter figure.
- **Absorption -** The San Diego industrial market posted 13,373 square feet of positive net absorption in the first quarter, a slow start to the year following the very strong positive net absorption of last year. 2015 posted the second greatest annual positive net absorption since 2007. Over the past six years, the market has accumulated a total of over 10.1 million square feet of positive absorption.
- **Transaction Activity -** The total square feet leased and sold in the first quarter was approximately 2.8 million square feet, a 40% decrease from first quarter of 2015's mark of 4.7 million square feet. This statistic can have some lag time in being reported, so look for this quarter's figures to end up somewhat higher in the next report. Details of the largest transactions can be found on the back page of this report.
- **Employment -** The unemployment rate in San Diego County was 4.7% in February 2016, unchanged from a revised 4.7% in January 2016 and below the year-ago estimate of 5.5%. This compares with an unadjusted unemployment rate of 5.7% for California and 5.2% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 39,100 payroll jobs from February 2015 and February 2016, including 8,500 from education and health services, which reported the largest overall gain. Leisure and hospitality reported a growth of up to 7,000 jobs, followed by professional and business services that reported up to 6,400 jobs.
- **Overall -** New construction is still at low levels, but is increasing, with the first quarter alone posting the highest number of deliveries seen in the past six years. We are seeing continued decreases in the amount of vacant space in the market along with consistent positive net absorption. Asking rental rates have been increasing for some time now and that increase is now accelerating. The depleted development pipeline has been a big factor in the vacancy rate compression, and we foresee 2016 being another year of growth.

FORECAST

- **Construction -** After eight years of depressed construction levels for the San Diego industrial market, speculative construction is in the works. However, limited construction in coming quarters should further allow demand to catch up to supply.
- **Employment -** We anticipate job growth of around 2.5%, or 35,000 jobs, in San Diego County over the year. Look for sectors like professional, scientific, & technical services, health care & social services, and leisure & hospitality to lead the way for employment gains in 2016.
- **Lease Rates -** Expect average asking rates to increase by approximately 3% to 4% over the next four quarters.

OVERVIEW

	1Q16	4Q15	1Q15	% of Change vs. 1Q15
Vacancy Rate	4.10%	3.79%	4.92%	(16.67%)
Availablity Rate	7.57%	7.20%	8.39%	(9.77%)
Average Asking Lease Rate	$0.82	$0.80	$0.72	13.89%
Sale & Lease Transactions	2,780,824	6,056,162	4,639,553	(40.06%)
Gross Absorption	1,510,056	1,931,510	1,846,629	(18.23%)
Net Absorption	13,373	640,459	689,648	N/A

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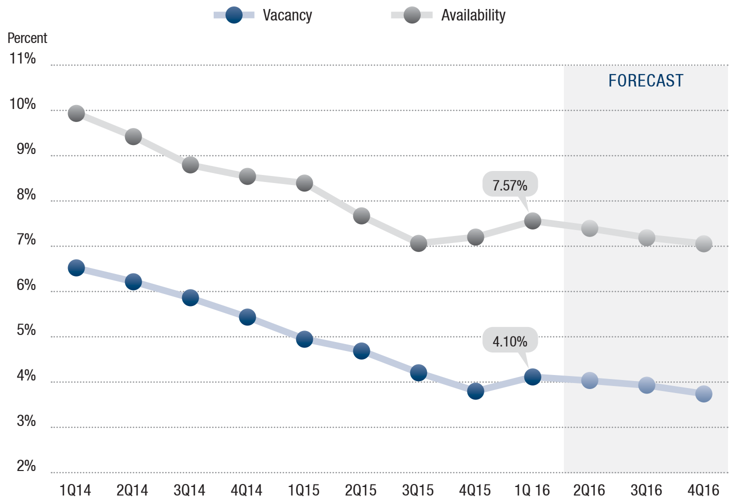
Prepared by:
Jooyoung Kim
Market Research Analyst
e-mail: jkim@voitco.com
VOIT Real Estate Services

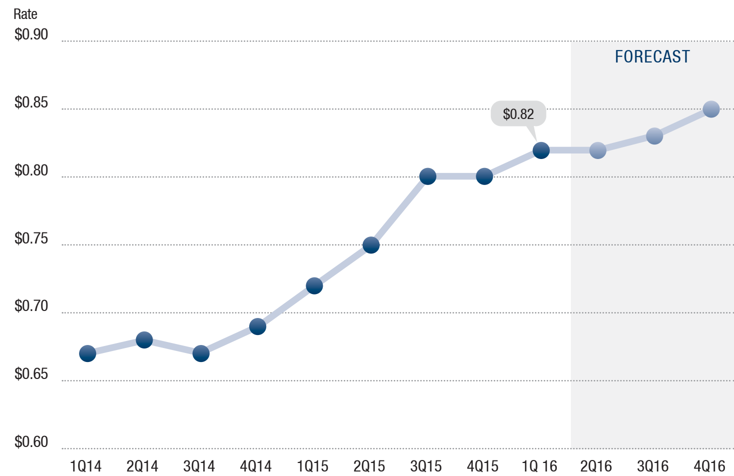
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



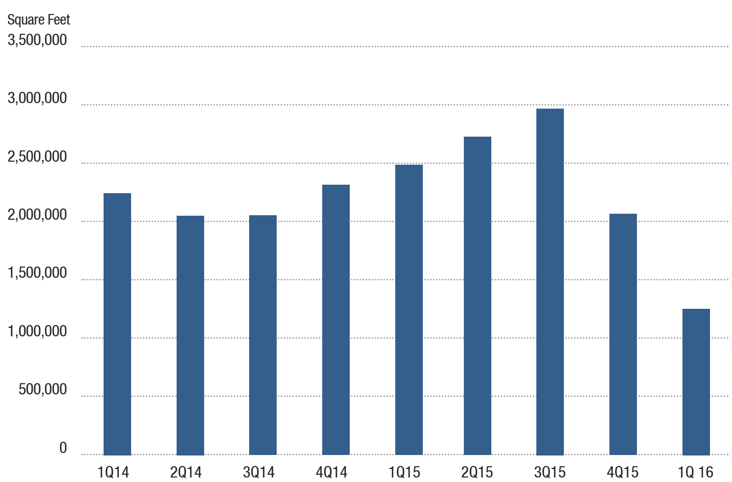
AVERAGE ASKING TRIPLE-NET LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



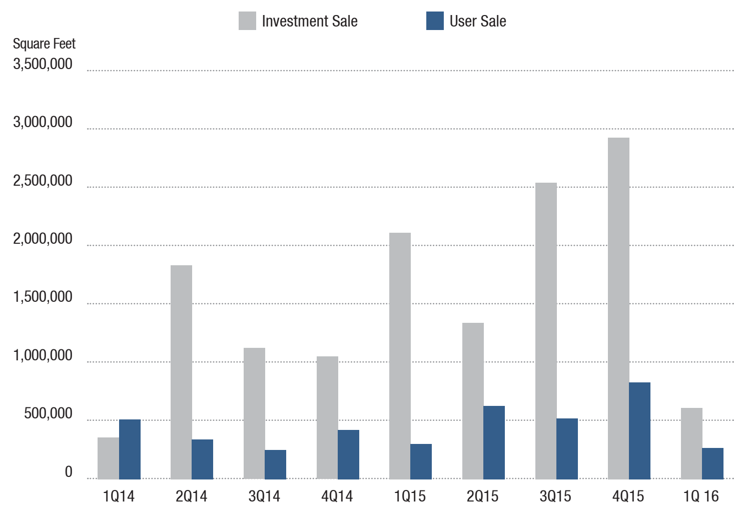
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



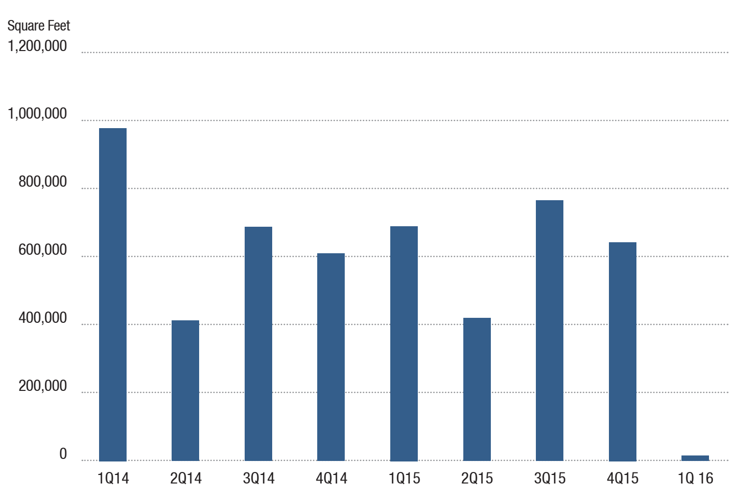
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER



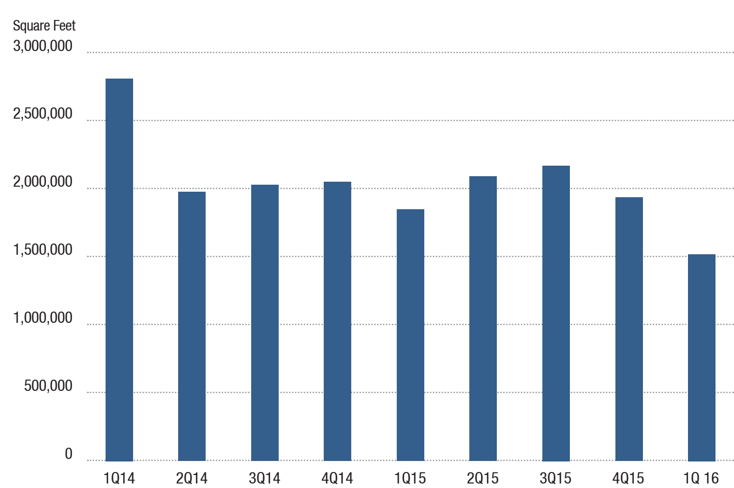
NET ABSORPTION

CHANGE IN THE AMOUNT OF OCCUPIED SPACE FROM ONE QUARTER TO THE NEXT



GROSS ABSORPTION

TOTAL AMOUNT OF SPACE THAT BECAME OCCUPIED IN A QUARTER



	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 1Q2016	Square Feet Available	Availability Rate 1Q2016	Average Asking Lease Rate	Net Absorption 1Q2016	Net Absorption 2015	Gross Absorption 1Q2016	Gross Absorption 2015
Central													
Central City	151	2,312,876	0	0	69,100	2.99%	69,100	2.99%	$2.25	(5,900)	31,606	0	47,970
East City	61	976,691	0	0	1,100	0.11%	10,459	1.07%	$0.00	0	0	0	0
Southeast City	318	3,542,907	0	0	120,499	3.40%	183,805	5.19%	$0.65	4,334	79,875	25,461	142,632
Central Total	530	6,832,474	0	0	190,699	2.79%	263,364	3.85%	$0.89	(1,566)	111,481	25,461	190,602
Central Suburban													
Kearny Mesa	426	9,827,368	0	0	215,451	2.19%	345,350	3.51%	$1.14	(22,506)	173,749	90,315	553,620
Mission Gorge	120	1,951,221	0	0	51,883	2.66%	60,726	3.11%	$1.03	(29,774)	47,046	16,141	113,260
Rose Canyon / Morena	137	2,757,429	0	0	13,134	0.48%	166,134	6.02%	$0.00	(5,780)	7,856	1,570	72,268
Sports Arena / Airport	142	1,615,188	2,500	0	33,732	2.09%	73,356	4.54%	$0.00	(7,878)	43,447	3,522	121,954
Central Suburban Total	825	16,151,206	2,500	0	314,200	1.95%	645,566	4.00%	$1.13	(65,938)	272,098	111,548	861,102
East County													
El Cajon	445	9,006,316	0	112,126	191,762	2.13%	444,314	4.93%	$0.67	19,322	46,522	133,170	313,451
La Mesa / Spring Valley	312	2,669,882	0	0	87,215	3.27%	187,227	7.01%	$0.70	23,994	33,338	42,516	150,535
Santee / Lakeside	279	3,710,786	0	239,050	39,313	1.06%	120,812	3.26%	$0.82	3,790	26,333	43,335	118,898
East County Total	1,036	15,386,984	0	351,176	318,290	2.07%	752,353	4.89%	$0.70	47,106	106,193	219,021	582,884
Highway 78 Corridor													
Oceanside	399	8,595,754	193,689	283,804	878,899	10.22%	549,676	6.39%	$0.69	7,150	633,317	75,346	876,187
San Marcos	505	8,082,596	0	84,000	438,375	5.42%	773,995	9.58%	$0.78	24,647	91,185	79,664	339,113
Vista	496	12,507,319	17,950	330,165	277,687	2.22%	727,117	5.81%	$0.69	(12,974)	270,197	67,321	723,260
Highway 78 Corridor Total	1,400	29,185,669	211,639	697,969	1,594,961	5.46%	2,050,788	7.03%	$0.70	18,823	994,699	222,331	1,938,560
I-15 Corridor													
Escondido	628	7,263,789	0	91,000	116,823	1.61%	365,503	5.03%	$0.82	5,047	78,126	55,658	446,142
Poway	175	7,372,384	0	355,000	286,335	3.88%	651,764	8.84%	$0.90	119,801	(56,409)	162,290	383,427
Rancho Bernardo	46	4,243,652	0	0	416,811	9.82%	503,035	11.85%	$0.97	(81,979)	(78,145)	0	71,057
Scripps Ranch	29	744,322	0	0	93,769	12.60%	128,384	17.25%	$0.93	(70,648)	20,353	12,236	37,869
I-15 Corridor Total	878	19,624,147	0	446,000	913,738	4.66%	1,648,686	8.40%	$0.92	(27,779)	(36,075)	230,184	938,495
North City													
Miramar	591	13,312,798	0	615,000	421,010	3.16%	998,368	7.50%	$0.96	(74,322)	296,134	133,303	985,757
Sorrento Mesa	78	3,884,121	0	0	106,274	2.74%	355,185	9.14%	$0.93	24,727	99,579	53,307	189,610
Sorrento Valley	46	1,036,046	0	0	19,227	1.86%	14,227	1.37%	$1.57	(17,347)	(1,880)	2,420	32,600
Torrey Pines / UTC	3	104,448	0	149,663	0	0.00%	0	0.00%	$0.00	0	0	0	0
North City Total	718	18,337,413	0	764,663	546,511	2.98%	1,367,780	7.46%	$0.96	(66,942)	393,833	189,030	1,207,967
North County Coastal													
Carlsbad	227	7,577,427	113,830	407,064	665,350	8.78%	1,079,448	14.25%	$0.93	19,466	(17,713)	88,648	478,751
North Beach Cities	44	324,156	0	0	0	0.00%	0	0.00%	$0.00	0	0	0	0
North County Total	271	7,901,583	113,830	407,064	665,350	8.42%	1,079,448	13.66%	$0.93	19,466	(17,713)	88,648	478,751
Outlying Areas													
Outlying SD County North	102	913,448	0	3,754	15,801	1.73%	27,476	3.01%	$0.90	100	5,096	1,100	29,138
Outlying SD County South	72	717,231	0	0	40,502	5.65%	18,055	2.52%	$0.00	(39,502)	0	6,460	2,983
Outlying Areas Total	174	1,630,679	0	3,754	56,303	3.45%	45,531	2.79%	$0.90	(39,402)	5,096	7,560	32,121
South Bay													
Chula Vista	335	8,688,007	0	0	271,161	3.12%	850,673	9.79%	$0.81	149	173,449	146,815	415,805
National City	245	3,525,739	0	0	69,130	1.96%	140,354	3.98%	$0.77	32,672	(15,999)	42,808	121,847
Otay Mesa	328	15,251,879	121,970	1,397,146	888,922	5.83%	1,898,029	12.44%	$0.59	95,094	494,515	221,560	1,213,218
San Ysidro / Imperial Beach	67	1,418,231	0	24,121	71,693	5.06%	153,522	10.82%	$0.75	1,690	118,569	5,090	135,209
South Bay Total	975	28,883,856	121,970	1,421,267	1,300,906	4.50%	3,042,578	10.53%	$0.68	129,605	770,534	416,273	1,886,079
San Diego County Total	**6,807**	**143,934,011**	**449,939**	**4,091,893**	**5,900,958**	**4.10%**	**10,896,094**	**7.57%**	**$0.82**	**13,373**	**2,600,146**	**1,510,056**	**8,116,561**
0–9,999	3,071	15,582,686	2,500	7,804	258,930	1.66%	543,911	3.49%	$1.03	(15,763)	215,540	122,420	725,964
10,000–19,999	1,795	25,307,853	17,950	0	818,626	3.23%	1,642,158	6.49%	$1.00	25,587	147,677	463,662	1,663,228
20,000–34,999	989	25,298,451	0	182,177	860,110	3.40%	1,513,665	5.98%	$0.91	(123,611)	304,273	283,598	1,595,537
35,000–49,999	365	15,077,226	0	200,876	599,390	3.98%	894,245	5.93%	$0.73	(62,840)	300,752	78,553	1,061,199
50,000–99,999	375	25,835,633	205,804	992,315	1,252,176	4.85%	2,336,191	9.04%	$0.78	(29,859)	584,554	174,073	1,199,996
100,000 Plus	212	36,832,162	223,685	2,708,721	2,111,726	5.73%	3,965,924	10.77%	$0.79	219,859	1,047,350	387,750	1,870,637
San Diego County Total	**6,807**	**143,934,011**	**449,939**	**4,091,893**	**5,900,958**	**4.10%**	**10,896,094**	**7.57%**	**$0.82**	**13,373**	**2,600,146**	**1,510,056**	**8,116,561**

Lease rates are on a triple-net basis.

MAJOR TRANSACTIONS

Sales Transactions

Property Address	Submarket	Square Feet	Sale Price Per SF	Buyer	Seller
9030–9040 Carroll Way (12 Properties)	Portfolio	191,911	$142	SR Commercial	Colony Realty Partners
2270 Camino Vida Roble	Carlsbad	106,311	$128	Colony Capital, LLC	Lincoln Property Company
970 Park Center Dr.	Vista	76,954	$133	Sea Vista Properties, LLC	PacVentures, Inc.
8525 Camino Santa Fe	Miramar	58,351	$145	Rexford Industrial	Michael Stoff
2717–2719 Kurtz	Sports Arena	28,360	$236	Realterm NAT	TDE Financial, Inc.

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
10165 McKellar Ct. (Renewal)	Sorrento Mesa	78,000	Jan-2016	Quidel Corporation	The Blackstone Group, LP
780–784 Bay Blvd. (Renewal)	Chula Vista	47,560	Mar-2016	Cox Chula Communications	Carleton Management, Inc.
2402 Main St.	Chula Vista	41,880	Mar-2016	Furniture Warehouse	Alpine Creek Center Company
2025 Gillespie Way	Vista	40,694	Jan-2016	Providence Venture, Inc.	NSD Associates, LLC
9393 Waples St.	Sorrento Mesa	30,610	Mar-2016	Undisclosed	Clarion Partners

PRODUCT TYPE

MFG./DIST.
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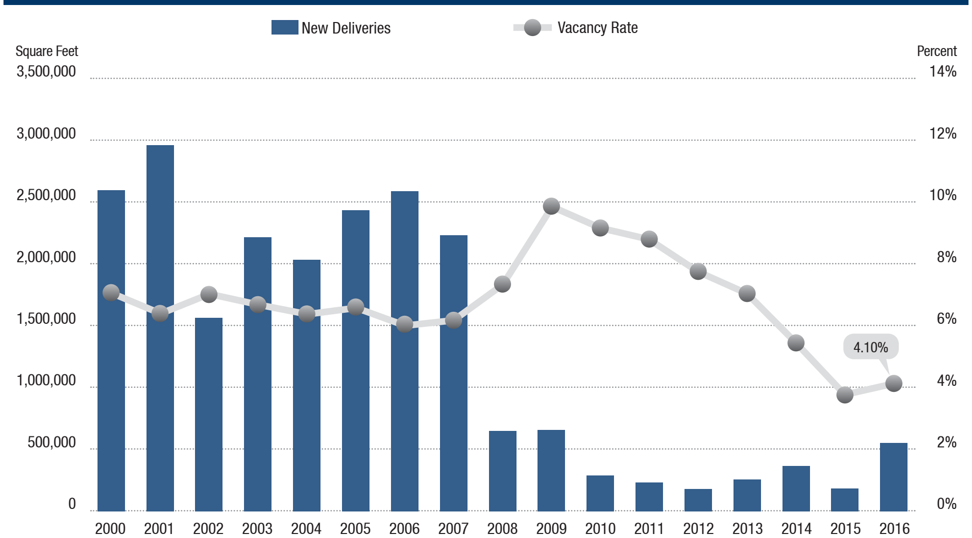
ANNUAL NEW DELIVERIES VS. VACANCY RATE



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REAL ESTATE SERVICES

Anaheim, CA
714.978.7880

Inland Empire, CA
909.545.8000

Irvine, CA
949.851.5100

Los Angeles, CA
424.329.7500

San Diego, CA
858.453.0505

Lic.#01333376
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